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IFRS-Fachausschuss

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EFRAG
Françoise Flores
Chairman EFRAG TEG
35 Square Meeûs

B-1000 Brussels

Berlin, 12 May 2014

Dear Françoise,

EFRAG Short Discussion Series - The equity method: A measurement basis or one-line consolidation

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on EFRAG's Short Discussion Series Paper *The equity method: A measurement basis or one-line consolidation* (herein referred to as the 'EFRAG Paper'). We would like to share our view on this topic more broadly with less focus on the specific questions in the EFRAG Paper. We also consider our response within the context of further EFRAG activities and the IASB's research project on the equity method of accounting.

Generally, we agree with the list of issues as addressed in the introduction of the EFRAG Paper relating to the application issues of the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*. Therefore, we support EFRAG's research activities and we encourage further efforts on this topic. Nevertheless, EFRAG seems to expect that answering the question to what extent the equity method is a measurement basis, a one-line consolidation or whether it is a hybrid of both would address and solve many of the issues listed in the introduction of the EFRAG Paper. We do not share this view. In our view, most of these questions would still remain.

The EFRAG Paper assumes that depending on the conclusion whether the equity method reflects a measurement basis or one-line consolidation the measurement or consolidation requirements in other IFRSs would apply. In our view, this assumption leads to the ultimate research question to what extent and for which reasons it is meaningful to retain the equity method in IFRS. We think the starting point for further research is expressed in paragraph 76 of the EFRAG Paper, ie to develop a profound conceptual view of what method/basis best portrays the performance of an investment in an associate or a joint venture. IAS 28 does not state what the equity method is trying to portray.

We agree with the view in the EFRAG Paper that the investor does not control the underlying assets of an equity-accounted investee. Therefore, only the investment in the investee would meet the definition of an asset and be subject to measurement. According to the IASB's preliminary views in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* relating to measurement methods, assets would be either subject to (i) cost-based measurements, (ii) measurements at current market price; or (iii) other cash-flow-based measurements. We do not see how the current approach in IAS 28 would fit into one of these three categories. Therefore, in light of a revised Conceptual Framework accounting for associates and joint ventures might need a more substantial rethinking.

In addition, we think there is a general need to review and improve the terminology of the accounting guidance for associates and joint ventures. We have concerns that defined terms, especially the implication of the distinction between "interests" and "investments", are not used consistently across IFRSs. We also perceive that the EFRAG Paper uses both terms "investment" and "interests" interchangeably. We think it is important to emphasize the consistent use of terminology to achieve high quality standards. We think there is considerable room for improvements and clarifications.

If you would like to discuss our comments and alternative proposals further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President